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Maximizing Federal Funds for Human Services

An informational hearing of the
Senate Human Services Committee

State Capitol, Room 4203
March 9, 2010
1:30 – 4:30 pm

Background Paper

Over the last decade, general fund support for human services has grown more slowly than the rest of the state budget. In 1999-2000, human services expenditures were 10 percent of the General Fund; in 2008-09, they were 9 percent. During this time period, California's population grew by 15 percent; inflation rose by roughly 30.5 percent; the poverty rate increased from 14 percent to 14.6 percent; and child poverty hovered at just under 19 percent, only recently increasing. In some programs, such as CalWORKs (the state's program to provide temporary financial assistance and employment services to low-income families), overall expenditures were lower in 2009 than in 1999, *before* adjusting for inflation.

Despite the sector's relative slow growth, the state's budget deficits have made it necessary to scrutinize all categories of state spending. According to the Legislative Analyst's Office, the 2009-10 enacted budget resulted in a loss of general fund support of $1.1 billion (or 11 percent) for major social services programs compared to the prior year.[1] The reduction for the social services sector would have been greater, but was offset by about $1 billion from the federal American Recovery and Reinvestment Act of 2009 (ARRA).[2]

For the special session, the Governor proposes additional reductions in general fund spending for social services programs totaling $113.6 million in 2009–10 and $1.46

[1] "The Budget Package: 2009-10 California Spending Plan," Legislative Analyst's Office, October 2009.
[2] LAO notes that the February and July 2009-10 budget packages showed General Fund solutions of $2.1 billion, with the net General Fund savings after ARRA interaction to be $1.8 billion. Not all savings identified in these budget packages were achieved.

billion in 2010–11. These actions, if taken, would result in a loss of nearly $3 billion in federal funds. More federal funding would be foregone under an alternative “trigger” proposal.[3] Federal funds are an important source of funding for county-level human services programs. According to a report published by Beacon Economics in March 2009, spending on such programs in California totaled $19.8 billion in 2007-08, with six out of ten dollars coming from the federal government (roughly $12 billion). State spending accounted for 28 percent (about $5.6 billion), while county spending accounted for 11 percent (about $2.2 billion) during that period.[4]

Potential cuts to these programs, caused by the economic recession, will undoubtedly have a direct impact on the populations they serve; but less clearly understood is the impact of such cuts to local economies. A loss of more than $3 billion in federal funds for social services programs, on top of the reductions in state funding, may have a larger negative economic impact than similar reductions in other sectors, at a time when the state is attempting to promote job creation and stimulate the economy.

This hearing seeks to understand the impact of federal funds spent on human services programs through their impact on local economies and job creation. The hearing also explores opportunities to draw down more federal dollars under the federal food stamp employment and training program, the Temporary Assistance for Needy Families Emergency Contingency Fund, and the earned income and child tax credits—all of which require little new state funding—and examine these programs and tax credits in terms of their economic impact and potential for job creation.

I. Economic Impact of Human Services Dollars

According to a report published in April 2009 by the County Welfare Directors Association of California and the California State Association of Counties, “human services programs in California are caught in the convergence of three forces: a sudden and rapid escalation of demand, profound historic cuts in state funding that have seriously eroded services, and a deteriorating economy that depletes county resources to cope.”[5] The report noted that California’s unemployment rate hit 10.5 percent in February 2009, up from 6.1 percent in January 2008, [and compared to 12.5 percent in January 2010,

[3] “The 2010-11 Budget: How the Special Session Actions Would Affect Social Services,” Legislative Analyst’s Office, January 29, 2010. This report notes that an additional $7.5 million in the current year and $1.14 billion in the budget year is proposed for fund shifts, for a total of $121 million and $2.1 billion in General Fund savings proposed. Savings estimates include current law that has been enjoined by the courts. The trigger proposal would eliminate certain social services programs in the event the state does not receive a specified amount of federal funding.

[4] “Spending on County Human Services Programs in California: An Evaluation of Economic Impacts,” by Jon Haveman, Ph.D., of Beacon Economics, Eric O’N. Fisher, Ph.D., of California Polytechnic State University, and Fannie Tseng, Ph.D., of Berkeley Policy Associates, presented to the Child and Family Policy Institute of California, March 17, 2009. These figures predate the American Recovery and Reinvestment Act, which increased federal financial participation in several programs.

[5] “Human Services In a Time of Economic Crisis: An examination of California’s safety-net programs and related economic benefits for communities,” County Welfare Directors Association of California and the California State Association of Counties, April 2009.

even with 32,500 jobs added that month], and that the number of individuals who were involuntarily working part-time instead of full-time due to the economy grew by 53.7 percent from February 2008 to February 2009.

Addressing the economic impact of human services dollars, the report highlighted the following:

> In their January 9 analysis of the President's proposed economic recovery plan, economists Christina Romer and Jared Bernstein concluded that temporary programs to protect people who are the most vulnerable in a deep recession will "have the largest job bang for the buck." Compared to the spending rate of other stimulus proposals, funds to protect the vulnerable are spent very quickly. Their analysis also projected that temporary increases in Food Stamps and unemployment benefits in the stimulus package would contribute more than one-fifth of all the jobs the package would generate in 2009.
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> Mark Zandi, writing in Moody's "Dismal Scientist," states that "Increasing food stamp payments by $1 boosts [national] GDP by $1.73," and notes that it is an effective way to prime the economic pump because people who receive the benefits will spend them within weeks. By the same token, any form of cash aid to hard-pressed families will go immediately back into the economy for food, shelter, clothing, transportation, and other basic necessities, and stimulate demand for additional goods and services. The Center on Budget and Policy Priorities also supports temporary assistance measures and posits that they can have a direct effect on jobs by retaining workers who might otherwise be laid off without the increased demand for goods and services created by stimulated spending.
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> Beacon Economics reports human services provide 32 percent boost to economy. The above findings were echoed in a recent study completed by Beacon Economics, which evaluated the economic impact of spending on human services programs in California. The study concludes that, as a whole, human services expenditures generate 1.32 dollars of economic activity for every dollar spent, meaning that output and employment resulting from program expenditures are greater than the expenditures alone would suggest. Beacon estimates the total economic impact of human services programs at $25 billion in 2007-08, creating 132,000 jobs, and generating $467 million in sales tax revenues. Moreover, the report uses a more conservative approach than other models, such as those developed by the US Department of Agriculture. As a result, the economic impact of spending on these programs may be even higher than the estimates described in Beacon's report.
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> The study found that CalWORKs, Food Stamps, and In-Home Supportive Services have the highest "multipliers," or ratios of economic activity generated to dollar spent. This is due to the high proportion of funding that is provided to low-income families and individuals, who are likely to quickly spend their benefits and stimulate the economy. Further, because of federal matching dollars – particularly the enhanced matches newly available through the American Recovery and Reinvestment Act – Beacon notes that any reductions in state spending for certain programs would come at a very significant cost. For example, the report found that the current state multiplier for CalWORKs benefits is 7.35, meaning that if state expenditures on CalWORKs grants increased by $1 million, output would increase by $7.35 million, and employment would experience a comparable boost.

The Beacon report also noted that the longer-term costs of service reduction, which might include a higher incidence of homelessness, poverty, malnutrition, substance abuse, violence, and negative health outcomes for toddlers and infants, “suggests another sort of multiplier that ought to be included in the analysis.”

II. Opportunities under the federal Food Stamp Employment and Training Program.

The Food Stamp Employment and Training (FSET) program is an uncapped, sustainable funding source to deliver employment and training services to people who receive food stamp benefits, but are not on CalWORKs (California Work Opportunity and Responsibility to Kids), the state’s temporary financial assistance and employment services program for families with minor children.

FSET is administered by the USDA Food and Nutrition Service, the California Department of Social Services, and participating counties, and is used to help participants acquire skills to exit the food stamp program or to fulfill federal work requirements that are necessary to continue receiving food stamps. According to an All County Letter published by the Department of Social Services in September 2009, there are 27 counties that participate in FSET, and their combined total allocation for fiscal year 2009 was approximately $82 million, which consisted of almost $38 million in county funding drawing down $44 million in federal funding. The state currently makes no contribution to the FSET program and withholds a nominal amount for its role providing program administration.

Several groups, such as Western Center on Law and Poverty, the California Association of Food Banks, and the Insight Center for Community Economic Development, believe FSET funding is significantly underutilized. Under federal law, states are allowed to draw down an unlimited amount of FSET funds if matched by the state or local funds, including county or college funds, and other third-party funds, including foundation grants, employer-paid costs, student fees, and in-kind donations. Of California’s 58 counties, 22 currently participate in FSET, and, of the more than 680,000 households receiving food stamps but not on CalWORKs, approximately 29,000 are served through the FSET program as “mandatory work registrants.”

Proponents of FSET expansion highlight that FSET funds can be used to provide academic counseling, life skills, job placement, as well as support to purchase books and supplies, transportation, and childcare, all of which would help low-income residents succeed in community college and other employment and training programs. Proponents believe that, although FSET was originally conceived as a work requirement to remain on food stamps, it has the potential to help recipients improve their earnings and exit the food stamp program.

California is piloting a third-party match model called “Cal Success,” a partnership between the state, counties, and community colleges to expand educational opportunities for food stamp participants by increasing access to federal FSET funds. Three California community colleges (Foothill-De Anza College in Santa Clara County, Cabrillo College in Santa Cruz County, and Skyline College in San Mateo County) are using existing community college General Funds as the match, allowing the college to draw down an equal amount of FSET funds to provide job readiness training, case management and tutoring, job placement services, as well as fund career technical education and basic skills courses, and provide textbook and transportation support directly to participants. The pilot allows participation up to 328 students: up to 168 students at Foothill-De Anza; up to 110 students at Cabrillo, and up to 50 students at Skyline College.

III. Subsidized employment and non-recurring short term benefits funding under the Temporary Assistance for Needy Families Emergency Contingency Fund.

The American Recovery and Reinvestment Act of 2009 established a two-year emergency contingency fund (ECF) under the Temporary Assistance for Needy Families program (TANF), which allows states to draw down a maximum of $5 billion over fiscal years 2009 and 2010.[6] Under this program, states may be reimbursed up to 80 percent of increased spending on TANF, such as spending driven by caseload increases, in federal fiscal years 2009 and 2010 in any of the following three categories: basic assistance expenditures (as long as there is also an increased caseload), subsidized employment, and non-recurrent short-term benefits.[7]

According to an All County Letter published by the Department of Social Services in September 2009, increased spending is based on a comparison to either federal fiscal year 2007 or federal fiscal year 2008, whichever has the lower monthly average caseload (for basic assistance only) or lower expenditures (for all three categories), and the base year can be different for each of the spending categories. Funds received under ECF are not required to be used for CalWORKs (the state's TANF program) recipients, but may be used for any TANF purpose, as defined in federal law.

California is eligible to draw down up to $1.8 billion over the two-year period, provided that monies remain in the fund, i.e., that other states have not exhausted their eligible amounts first, as states' total cumulative eligible allocation exceed the amount of the fund. The President's 2010-11 budget proposes an expansion of ECF and modifications to some of its current rules. Additionally, efforts are underway in Congress to extend and expand TANF ECF beyond its current authorization, which ends September 30, 2010.

Subsidized Employment

According to the Center for Budget and Policy Priorities, states have used TANF-related funds to support a range of subsidized jobs, [8] including summer jobs programs for low-income youth and transitional jobs programs designed to help participants enter the labor market. The Center notes that these programs provide wage-paying employment to unemployed individuals for at least 20 hours per week, and often on a full-time basis, for

[6] TANF replaced the former Aid to Families with Dependent Children program.
[7] See subsequent sections for examples.
[8] Both private and public sector jobs are eligible to be subsidized with these funds.

a temporary period, such as six months. The Center also notes that subsidized jobs enable employers both to avert layoffs and to accelerate hiring.

As of January 27, 2010, the Center estimates that approximately 22 states had been authorized to use TANF ECF to establish new or expand subsidized employment programs and that several others states plan to begin operating such programs shortly. The Center estimates that, in total, states will provide subsidized jobs to almost 120,000 individuals by the end of September 2010 under this ECF.

In order to maximize California's ability to access TANF ECF dollars, the Department of Social Services established a workgroup with the County Welfare Directors Association and County Welfare Departments in March 2009. State statutory authority was granted in ABX4 4 of 2009 to provide TANF ECF funded subsidized employment program services to a new population of "needy families,"[9] in addition to families already eligible for subsidized employment under CalWORKs. The County Welfare Directors Association surveyed counties to identify the extent to which counties could expand subsidized employment programs, and the Department of Social Services applied for TANF ECF subsidized employment funds based on those projections,.

In California, an estimated 40 counties are receiving subsidized employment funds. According to testimony by John Wagner, Director of the Department of Social Services, more than $200 million of ECF funds are estimated to be spent on 15,000 subsidized jobs with public and private sector employers, and, currently, over 11,000 of these positions are filled across California.

Non-Recurring Short-Term Benefits
Short-term TANF benefits are defined as cash, in-kind or voucher payments to meet a specific crisis situation or episode of need and cannot extend beyond four months. Importantly, states can draw down these funds with no new state spending, rather using increased spending (over the base year) and in-kind services by third parties, including local governments and schools, foundations, corporations, and community organizations, to draw down ECF funds.

According to the National Conference of State Legislatures (NCSL), states have developed a variety of approaches to short-term benefits that respond to a wide range of family needs, including housing, employment, transportation, education and training, and

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[9] Includes families with income less than 200 percent of the federal poverty level (FPL) if the family meets any of the following criteria: A family in which a minor child is living with a parent or adult relative caregiver, including a non-custodial parent who does not reside with the minor child; a woman who is in her third trimester of pregnancy; a family in which a minor child is temporarily absent for a period of time not to exceed 12 months due to child abuse and neglect, and the parent or parents of the child are engaged in family reunification services

child development. NCSL notes that states have used short-term benefits to help low-income families meet emergency needs and avoid going on cash assistance, overcome barriers to getting or keeping a job, avoid eviction or foreclosure or move into adequate housing, get education and training, repair or buy a car to get to work, and meet expenses such as high energy bills and back-to-school costs. NCSL highlights the following uses for ECF short-term benefits:

Diversion programs: Lump sum payments to help clients get a job or meet emergency needs instead of placing them on monthly cash assistance.

Employment/training bonuses: Rewards or bonuses for TANF clients who get a job or maintain employment. Additionally, this may include bonuses for clients who meet training or credentialing bench marks such as a GED or other form of educational or training accreditation.

Education and training: Payments and services to enable low-income parents to obtain short-term education and training so that they have the necessary qualifications for good jobs within their local area. Payments and services can include tuition and fees, books and expenses, and transportation.

Work expenses*:* Payments for work clothing, professional fees, transportation and tools and equipment, and temporary child care needed to find and start work. These payments could be made to divert an individual from assistance to obtain or retain employment (e.g., tools) or as a reward for those who go to work to help cover new work related expenses.

Transportation support: One time payments to help clients with transportation between work and home. This can be in the form of a payment toward the purchase of a car, car repair, license restoration or securing insurance.

Housing and utilities: Payments to avoid utility shut-offs, mortgage foreclosures, evictions for rent arrearages, urgent appliance repairs and up-front costs such as first and last month's rent and security deposits for homeless families and those in inadequate housing. These benefits can be used for the payment of rent, mortgage and utility arrearages, rental and utility deposits, and fuel deliveries.

One-time payments for family expenses*:* Payments for periodic or one-time expenses such as back-to-school costs, new baby expenses, debt counseling, emergency food, winter heating or summer cooling costs, tax preparation expenses, or funeral expenses. These one-time payments are an especially important area for state innovations as they think about how the state can use the TANF Emergency Fund to help them meet family needs during the recession.

Child Safety: Payments or services for families at risk of losing their children because of abuse or neglect. Services can include in-home supports to families, such as crisis counseling and Family Builders and out-of-home supports such as temporary housing, clothing and other expenses, respite and child care.

Domestic Violence: Payments for the prevention of domestic violence situations in families and/or to support the victims looking to escape situations of domestic violence.

Parenting and Child Development*:* Payments and services to families experiencing stressful life situations, including first-time and single parents and low-income families. Several states provide pre- and post-natal home visiting services designed to improve access to health services, reduce child maltreatment and improve child development.

As of mid-February, California had received approval for $441.38 million in federal ECF funds to fund basic assistance and subsidized employment, which represents just under 25 percent of its total allowable allocation. Of the $441.38 million, approximately $392 million is allocated to basic assistance, while almost $50 million is for subsidized employment. The state's current request for $110 million in non-recurring short-term benefits (from October 2008 through March 2010) is pending. The Department states that, assuming the spending remains constant for the remainder of FFY 2010, the total non-recurrent ECF is projected to be $242.7 million through September 30, 2010. The Department expects that additional applications for all three areas will be made quarterly, until the ECF authorization expires.

IV. Earned Income Tax Credit and Child Tax Credit

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is a federal tax credit for low and moderate-income working people, designed to encourage and reward work as well as offset payroll and income taxes. Many view EITC as the nation's most successful antipoverty program, and it is increasingly regarded as a significant federal investment in local and regional economies.[10] EITC has been expanded by both Democratic and Republican presidents.

EITC generally benefits working families with children that have annual incomes below about $35,000 to $48,000 (depending on marital status and the number of children in the family). Working low-income people without children that have incomes below about $13,000 (or $18,000 for a married couple) are also eligible, but for a much smaller credit. Importantly, EITC is "refundable," which means that if it exceeds a low-wage worker's income tax liability, the IRS will refund the balance.

According to the Center on Budget and Policy Priorities:

- In 2007, the average EITC was $2,488 for a family with children and $243 for a family without children.
- Research indicates that families use the EITC to pay for necessities, repair homes, maintain vehicles that are needed to commute to work, and in some cases, obtain additional education or training to boost their employability and earning power.
- Studies have shown that the EITC has encouraged large numbers of single parents to leave welfare for work.

[10] "Using EITC to Stimulate Local Economies" Alan Berube, Senior Fellow and Research Director, Metropolitan Policy Program , The Brookings Institution, November 2006.

- In 2009, the EITC lifted an estimated 6.6 million people out of poverty, including 3.3 million children. The EITC lifts more children out of poverty than any other single program or category of programs.
- ARRA expanded the EITC by adding a “third tier” for families with three or more children, who can now receive $629 more than families with only two children; and reduced the financial penalty some couples receive when they marry by allowing married couples to receive larger EITC benefits.

The Center notes that a two-parent family with two children with a full-time, minimum-wage worker can move out of poverty *only* if it receives the EITC as well as food stamps.

According to a new study published by the New American Foundation in March 2010,[11] and authored by Professors Antonio Avalos and Sean Alley at the California State University, Fresno, California received nearly $5 billion in EITC refunds for 2.4 million residents for 2009. “As these refunds are spent, they will spur $5.5 billion in sales for California businesses, who in turn will create 33,000 jobs, pay $1.32 billion in new wages, and bring $390.5 million in tax revenue to state and local governments,” the report notes. Yet their analysis of data show an estimated 800,000 Californians, about one in five who are eligible, will fail to claim $1.2 billion in EITC refunds. “Because $1.2 billion in EITC refunds will go unclaimed in 2009, California businesses will lose out on $1.4 billion in sales and 8,200 jobs will not be created,” state the authors.

In California, both the Department of Social Services and the Department of Community Services and Development (CSD) promote EITC participation in various ways. The Department of Community Services and Development received ARRA funding, which it is using to implement a statewide program to increase utilization of EITC, and is partnering with the Department of Social Services and the First Lady’s Office with these efforts. The Department of Social Services, pursuant to AB 1078, Lieber (Chapter 622, Statutes of 2007), works under a directive to maximize the ability of CalWORKs recipients to benefit from the EITC, by enacting changes to program asset regulations, restructuring welfare to work activities to increase eligibility for EITC, and increasing outreach and other activities that inform recipients of potential EITC eligibility.

In addition to AB 1078, in 2007, Governor Schwarzenegger signed a measure requiring employers to notify employees that they may qualify for the federal EITC (AB 650, Lieu, Chapter 606, Statutes of 2007), and a measure requiring the State Controller to provide in all payroll warrants issued to in-home supportive services (IHSS) providers between January 1 and April 15 of each year a notice and informational flyer informing those providers that they may qualify for the EITC (AB 836, Bass, Chapter 397, Statutes of 2007).

[11] “Left on the table - Unclaimed Earned Income Tax Credits cost California's economy and low-income residents $1 billion annually,” by Antonio Avalos and Sean Alley, New America Foundation, March 2010.

Additionally, *We Connect*, a national program created by First Lady Maria Shriver, engages in grassroots efforts, bringing together community organizations, businesses, government agencies, state leaders, congregations and schools, to help individuals and families take advantage of resources such as EITC and food stamps.

Child Tax Credit
The Child Tax Credit (CTC) is a federal tax credit worth up to $1,000 in 2009 for each qualifying child under age 17 claimed on a worker's tax return. Congress created the child tax credit in 1997 to help families meet the costs of raising children and then expanded it in 2001 and 2009. The Center notes that, for many families that qualify for both credits, the EITC will be larger, but the CTC still will provide a significant income boost. The CTC is also a partially refundable tax credit.

Changes made in 2001, as well as more recent changes under ARRA, have been largely favorable toward lower income families, lowering the threshold of earned income that is necessary to begin to qualify for the credit as well as receive the full credit. For the Child Tax Credit, ARRA temporarily lowered the earnings threshold to $3,000 for tax years 2009 and 2010. For EITC, ARRA increased the amount for working families with three or more children by up to $629 and provided some marriage penalty relief by raising the starting point of the phase-out range for all married couples filing a joint return for tax years 2009 and 2010.

Congress is due to extend several tax cuts, and it is uncertain at what levels these credits may be renewed. It is estimated that changes made under ARRA increase the total amount available under both tax credits by an additional $2.1 billion for California ($1.6 billion under the child tax credit and $500 million under the earned income tax credit).